**Seminar on the Swedish Telecommunications Market, 09 April, 1992**

**Comments from Televerket (delivered by Dr. Bertil Thorngren)**

Opening Comments

- Increased competition is one method by which customers may be offered a larger selection of services at lower prices more quickly and more effectively (in comparison with those which a monopoly might offer).

- The criteria for a successful competition policy are: access to increased service offerings and to international suppliers together with deceasing prices, coupled with similar markets in other countries.

- The telecommunications market is no longer national but international. Replacing the old order of one telecom operator per country is a new order of powerful international alliances and domestic competition.

- Geographically, Sweden ins on the outskirts of Europe. Highly developed and functioning telecommunications systems that can bridge the distance are therefore especially important to the country's businesses and residents.

- Sweden is also a small market (only 3% of Europe) with 9 million people spread over a large area (the third largest in Europe).

- Not least, it is essential that any telecommunications law providing competition in the Swedish telecommunications market also provide a unified Swedish marketplace, rather than a marketplace of bits and pieces, when viewed from an international perspective. ("Economies of scale together with economies of scope").

- This means, in Televerket's view, that it is positive not only for the country but also for Televerket, that strong international operators have good opportunities to freely offer their services in the Swedish market. The development of services will accelerate, and the pricing can drop to the lowest levels in the international arena. At the same time Televerket must have a similar opportunity to compete, both inside and outside Sweden. To be able to offer Swedish clients corresponding services Televerket needs corresponding open access to other countries telecom markets as well as opportunities to join in alliances with others - in cooperation with smaller telecom operators in other countries. This presupposes operations in the form of a limited company.

Without access to the same forms of working rules and conditions as the competition, Televerket's chances of successfully completing its assigned role are dangerously reduced.

- A valid telecommunications policy provides a clear framework - and therefore a restriction on how far the competition might reach for different groups of clients. On this point, if a telecommunications policy prescribes uniformity of pricing, certain parts of the market, for example local traffic and thinly populated areas, will lie beyond the reach of competition. A uniform price will be under the long-term production costs for both Televerket and its competition.

  (This problem exists most countries. The most radical solution is to simply deregulate pricing (New Zealand) and let the competitors set prices versus their costs. Another - more temporary- solution is found in the United States, where the long-distance operators pay a high charge for access to the local network. The 'access charge' can be approximately 50% of the gross receipts of a company, but is going down in steps as the fixed costs and local tariffs are rebalanced).

## Questions from the Ministry

**1. What are the most important characteristics that mark a successful market?**

From the client's viewpoint:

- At least the same number of alternatives - and at least the same service offerings - as are available in the most open telecommunications markets in other countries.

- Low levels of pricing, in comparison with other countries with open markets.

  For clients, access to service offerings as well as the level of pricing is a fairly objective comparison between different markets and countries. Televerket would assert that this type of marketing hyperbole is more relevant when compared with market share (more a method than a goal). Televerket, as well as its competitors, has to measure up against real performance (price/performance) rather than against share of the market per se - while the conditions satisfying the requirement for openness discussed below ("no barriers to entry") are being achieved. If only market share is to be noted then both Televerket and its competitors will be given a "negative incitement". Poor performance, which leads to a reduced market share, might be "rewarded", while good performance, leading to increased market share, might be"penalized". This comes from mixing up 'methods' and 'goals'.

  Note that Televerket, unlike its competitors, does not have to option of "pricing itself out of a market" in order to reduce market share, rather it might be forced, by uniform pricing, to keep a higher share than might be justified on a pure business basis.

From the suppliers viewpoint

- International openness (because only international operators have the capacity to compete effectively). The same requirements regardless of ownership of nationality.

- Openness for unlimited new startups (to stop the wrangling of duopolies or oligopolies)

- Open access for cable rights of way or interconnection (the same requirements for all) together with the opportunity to lease and freely use other operators' capacity. The decision to build, lease or cooperate on traffic routes should remain a business decision. In other words, network capacity shall remain open to all, on equal requirements, regardless if the net operator is Televerket, Swedish Rail, Swedish Electric, Stockholm Energy, or whomever.

- Opportunities for interconnect between all networks by open standards and requirements and a single set of technical and economic rules with the EC "Open Network Provision" (ONP) as guidelines and in independent telecom regulatory body to oversee all of this.

**2. What are the most important factors (both promoting and impeding competition) in creating a successful market?**

Promoting competition are:

- International publicity (clarification of intentions) in regards the government's intention to create a completely free telecommunications market. (One positive example was the government's contribution to the recent GATS discussion. "No limitations/national treatment". As a result Sweden now has declared its willingness to open its markets more unconditionally than the UK, US, or Japan).

- Regulations that establish all operator's rights to obtain network capacity from different operators under equal conditions regardless of nationality and so forth (the ONP regulations according to the EC).

- Laws that establish long-term stabile conditions for different operators in the market. Important in the long-term for both Televerket and its competitors as otherwise all might be unwilling to invest in the market for the long term. Continued investment on a par with other countries is critical to Sweden's competitive position, regardless of who makes the investments.

  These laws and regulations supervised by an independent agency, which should have limited authority to change the rules of the game following a set procedure. (This will reduce the insecurity in the market with the related reduction of willingness to invest the the detriment of Sweden).

- Competition laws designed to prevent "abuse of dominant power" by <u>any</u> operator in the market. In this respect it isn't only Televerket with its network, but also other operators with very large home markets - including legal monopolies in some cases - with gives them the opportunity for "dumping" and so forth.

  Among the potential competitors are companies whose annual profits are larger than Televerket's total turnover, as well as companies who continue to enjoy legal monopolies in their home markets.

- Competition is also favored by technical and economic factors. New technologies (optical fiber) requires much less investment and provides a method to compete directly for 80% of the traffic turnover in Sweden. (A quicker pay-off). In radio-technology, new powerful alternatives are being developed that provide an opportunity to compete in the (profitable) parts of the local net. 40-50% of traffic revenues are found in the larger metropolitan areas, which is very helpful to competitors.

Hampering competition are:

- Continuing unbalance tariffs frustrate competition. They make it very easy for a competitor to get that first 5-10% of the market, that part that is 'overly profitable' and is responsible for an unreasonable high proportion of profits. However, unbalanced tariffs make it very difficult for a competitor to continue past this point. In the parts of the market where today tariffs don't even cover costs, competition is impossible, because Televerket (completely unwillingly) continues to "dump" prices. Fair competition requires fair pricing.

  Without fair (cost-based) pricing competitors risk stalling after that first 10% of the market is taken. The opportunities for both competitors and Televerket to finance continued development and modernization of the networks for more than 90% of the clients is reduced because the overpayments from the former 'overly profitable' routes has been lost.

- Another hindrance to competition is that to day it has been impossible to give any sort of 'operators' discount' in regards capacity on the local networks (because the local nets are already operating at a loss without any discounts). Currently access to the national network is priced at 0.60 SEK per minute, a significant discount (about 50%) in comparison to the retail price. This is about 1/3 the cost of access for example in the UK for mobile telephone operators for an equivalent service.

  In spite of the low prices in Sweden in comparison with other countries Televerket will agree with the competitors that the current situation hampers competition.- because it does not provide the opportunity to buy capacity <u>only</u> to and from the local network. ("Unbundling"). Televerket is prepared to offer an "operator's discount" for access to and from the local network as soon as the decision is taken to allow local network tariffs to be cost-based. Such operator's discounts are to allow other operators to take over a part of the requirements which Televerket had to provide for the end users. (Under today's law, it is the government, possibly the telecommunications commission, which determines the pricing for access).

- Any special handling for Swedish-owned companies at the expense of internationally owned operators runs the risk of deterring international operators from investing in the Swedish market - which will harm competition. (Special requirements, such as national security issues, must be handled in such a way that requirements can be met by all potential competitors).

In the case that some form or "extra startup help" is felt necessary, it must be available on equal grounds to all potential competitors. Otherwise less effective competitors may prevail at the cost of more powerful, and for the client, more interesting and relevant alternatives. As said earlier, there is a risk that competition might decease in coverage if all that is left are the less profitable parts of the market.

A timely signal regarding tariff rebalancing in the direction of cost-based tariffs will give more room for open competition and investment interest among all the operators in the market.

**3. What role should the regulatory organization play? (Advisor to government, adjudicator, supervisor, officer of the courts, etc)**

The independent telecommunications commission has many important duties:

- to <u>represent</u> Sweden in international fora (ITU; etc)
- to <u>observe</u> (and report on) developments in telecommunications law as well as international agreements and regulations (for example, developments in the EC's ONP-directive)
- to <u>decide</u> in regards frequency coordination, assignment of number plans, adoption of standards regarding connection of customer equipment to the public net in Sweden, set technical and economic requirements for interconnection between different telecom networks
- to be an <u>advisor</u> in telecommunications questions to the organization supervising competition. (The continuing development of technology means that it is no longer possible to divide telecommunications companies from computer companies and media companies. We find ourselves in increasingly complex competitive and cooperative situations with each other well outside what was earlier called the telecommunications area. Sweden arrived at this point long before those in the EC, primarily because of the absence of statutory monopolies in telecom. Therefore, competition in the telecom area is merely a part of competition overall, not any special thing. Regular competition law and oversight is the only realistic possibility).
- to be an <u>advisor</u> in telecom questions to the organizations who watch over the interests of consumers. It is also difficult to draw a clear line in this area between telecom and non-telecom issues, so the Consumer Ombudsman is the natural venue.
- to <u>satisfy</u> the requirement for public oversight (in regards secrecy/privacy) in the telecom area - by taking over Televerket's former duties as an official agency.

  In this is included taking over of Televerket's former responsibilities in the area of national security - other than those which may be applied to Televerket and any other public network operator.

  The organization can, in some of the points above (frequency coordination, number plans, standards for net attachment, ONP) function as an adjudicator - with an opportunity to appeal to...... . In other questions, the organization should only have an advisory role (Consumer Ombudsman, Price and Competition Commission, Market Court, etc).

## Appendix

**English Telecom Policy - a model or a warning example?**

If one truly wants to have competition, one need (at a minimum) the following point to begin:

1. Completely free entrance to the market for all operators, regardless of size and nationality. Resource-rich and crafty operators give quicker results than lazy operators.

2. Completely free pricing policies. Competition eliminates excess profits and forces more cost-based pricing in earlier unprofitable parts of the market.

3. The removal of all formal and informal barriers to entry overall.

Most countries have - to date- waffled at taking all these steps. The motivations are many. Among them is industrial policy. There has been great fear that the "home" market would be over-run by international companies while one's own "home" company would be hindered in moving into other countries.

England can certainly say that it is more open that the other EC countries - but its profitable international routes are still protected. One consequence has been exceptionally high profit levels for both domestic suppliers, together with a pricing level that continues to be much higher than that in Sweden, for example. This has been seen as an industrial policy, a "necessary" policy with reference to other countries' protected markets.

In our view it is hard to see the UK as any sort of model of competition - more a warning example. They have still not given U.S. Sprint (number three among the US long-distance carriers) permission to compete in the international traffic market. Tariffing of service is regulated in detail, etc. Competition has therefor only extended to the most profitable clients - while the residential customers continue to wait.

Given the conditions it is not surprising that BT's competitor will not get more than 5% market share. It is simply not profitable for the competition to capture a larger share. (Note that the 5% figure reflects an average against the whole country, both residential and business. The company has captured about 1/3 of London together with the extremely profitable international traffic. As a subsidiary of Cable & Wireless, operating in 50 countries, the company has reached a critical mass).

OFTEL has added to the burdens of a competitor by assessing an 'access charge' as soon as they reach a share of 10% or the market, or as soon as BT's share sinks to 85%. This must certainly reduce the desire to increase one's market share. The results are instead to keep prices high to reduce the risk of increased market share with its accompanying access charge. Both companies have gotten negative incitements instead of a spur to increase or hold on to their market share through lower prices and better service.

Instead of opening the market for full international competition they have, during the 1980's, focused on how a pure "home-grown" competitor can come about, rather than how real competition could reach out to the residential and lower-density markets and other non-cost-based markets sectors today while giving the competitors a positive inducement to take on a part of the investment the former monopoly made.

To be fair, we must point out that England has come a good deal farther than other EC countries and that a movement to a more open market is underway.

The fact that the question of competition has been taken up here means that developments in the UK are often brought out in the Swedish debate without observing that the situation there is very special (so-called "managed competition"). In comparison we point out the former monopoly in the US, AT&T, has seen its share of the long-distance traffic market sink by 40% while NTT in Japan lost half of its traffic on profitable routes. And, in comparison with Sweden, prices in England continue at a clearly high level.

New Zealand and Sweden are to date the only countries where the telecommunications market is completely open for international competition. This is better than a model.